Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Improved Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers And Interexchange Carriers	)	RM No. 10011

EXHIBIT 1

DETAILED DESCRIPTION

PLAN FOR IMPROVED REGULATION
OF
NON-PRICE CAP INCUMBENT
LOCAL EXCHANGE CARRIERS

October 20, 2000

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I. INTRODUCTION

The comprehensive plan for improved regulation of incumbent local exchange carriers not subject to price-cap regulation ("non-price cap LECs") described herein has several policy objectives. The plan will benefit consumers by promoting universal service, particularly by ensuring comparable rural and urban rates and services. The plan also reduces implicit universal service subsidies by creating an explicit portable support mechanism for universal service funding that operates in the pooling environment for non-price cap LECs. Through access reform, the plan will increase economic efficiency by mandating increases in the subscriber line charge ("SLC") for all LECs subject to the plan, thereby increasing flat-rate recovery of fixed costs. For the customers of all such LECs, the plan will expand the Lifeline definition, and will remove the caps now in place on universal service support. Moreover, interexchange carriers ("IXCs") will be required to offer customers in rural, insular, and high-cost areas -- the service territories of LECs subject to the plan -- the same discount plans available to urban customers.

The plan defines two regulatory regimes, or "paths," known as Path A and Path B, which non-price cap LECs must elect on a company-wide basis. Path A establishes a five-year transition period, to commence on July1, 2001, during which such LECs would be able to move on a per-study area basis to a new form of incentive regulation which is based on revenues per line that are fixed but adjusted for inflation.[1] Pursuant to Path B, such LECs would remain under their existing forms of regulation unless they elect incentive regulation pursuant to Path A during the transition period on a company-wide basis.

The National Exchange Carrier Association ("NECA") will convert its present two pools into a single pool. Prior to the start of the plan, all non-price cap LECs will elect, on a per-

[1] Dates in this description of the plan assume a proposed effective date of July 1, 2001.

operating company basis, the path through which they will participate.[2] Once a LEC has elected Path A (becoming a "Path A LEC"), it will be permitted to decide at the study area level when, during the transition period, to move from its present form of regulation to the incentive regulation established in this plan. At the end of the transition period, which is proposed to be July 1, 2006, all study areas of all Path A LECs will move to incentive regulation.

LECs that elect Path B ("Path B LECs") will remain subject to their current forms of regulation unless they elect Path A during the transition period. From the time that such LECs become Path A LECs through the end of the transition period (June 30, 2006), they will be able to elect incentive regulation on a per-study area basis, like other Path A LECs. After the end of the transition period, like other Path A LECs, all of their study areas will be subject to incentive regulation. After the end of the transition period, Path B LECs would have to obtain a waiver from the Commission in order to be subject to Path A incentive regulation. Path B LECs and Path A LECs with study areas not subject to incentive regulation will be subject to the currently authorized rate of return.

II. POOL PARTICIPATION

At the beginning of the five-year transition period, a single pool for both Path A LECs and Path B LECs will replace the present system of two pools that NECA administers. NECA will continue to administer this single pool. NECA's current rate banding ability will continue, so that it may band rates as appropriate. Path A LECs and Path B LECs will decide for each of

[2] Thus, under Path A, non-price cap LECs would elect the plan's form of incentive regulation on a per-study area basis, and also elect whether such study areas would participate in the pool. All study areas of such LECs not on the plan's form of incentive regulation would continue to be subject to their pre-existing form of rate-of-return regulation – that is, regulation on a cost or average schedule basis.

their study areas whether to participate in the pool.[3] Once a Path A LEC decides whether one or more of its study areas will participate in the pool, it must make further choices:

A. Incentive Regulation Within The Pool

Path A LECs with study areas in the pool may elect by study area to be subject to incentive regulation, as described in section II-B below, at the start of the plan or in any subsequent year until the end of the five-year transition period. Under Path A's form of incentive regulation, a study area recovers all of its common line and traffic sensitive switched settlements on a revenue-per-line ("RPL") basis from the pool. The RPL of each Path A study area is set at the per-line revenue level based on the most recent cost study data or average schedule revenue requirement data available prior to the study area converting to incentive regulation. This initial RPL for each study area is adjusted for inflation, using the Gross Domestic Product-Chained Price Index ("GDP-PI") prepared by the U.S. Department of Commerce, and will be adjusted annually thereafter for inflation. Similar types of incentives for efficiency that exist for price caps are present for this form of incentive regulation.

Under Path A, special access settlements for study areas subject to incentive regulation within the pool will also be recovered on an incentive basis. Once a Path A LEC elects incentive regulation for any study area in the pool, it cannot later choose to recover that study area's costs based on traditional rate-of-return regulation.

During the transition period, a Path A or Path B study area within the pool may elect to participate in the common line tariff only or the common line and traffic sensitive tariffs. After the transition period ends, a study area may elect to participate in the common line and traffic

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[3] Path A LECs and Path B LECs may elect to operate individual study areas outside of the NECA pool. Those that do so would retain the option to elect regulation under the Commission's price cap rules, on a per-study area basis. *See* 47 C.F.R. §§ 61.41-61.49.

sensitive tariffs. Special access tariff participation will continue to be an option during and after the transition period for Path A LECs.

At the end of the transition period, all study areas of Path A LECs will be subject to incentive regulation.

B. Traditional Regulation Within the Pool

1. Path A LECs

During the five-year transition period, a Path A LEC may choose for any of its study areas to recover revenues within the pool on the same basis that the study area does today. Thus, if a Path A LEC's study area is settling with the pool at the start of the plan on a cost basis, it may continue during the transition period to settle with the pool based on its reported costs. Similarly, a Path A LEC currently operating on an average schedule basis may choose for one or more of its study areas to remain regulated on that basis during the transition period. That study area will continue to settle with the pool based on average schedule settlement formulas.

NECA will update average schedule formulas for changes in costs and demand over the five-year period using changes in relative cost and demand data of similarly-sized study areas that settle on a cost basis. NECA also may make structural modifications to the design of the average schedule formulas, to reflect changes in the mix of service offerings, changes in network design, or changes in operating practices.[4]

Path A LECs now under average schedule rules would be able to opt into incentive regulation within the pool on a per-study-area basis at any time during the five-year transition

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[4] An example of a structural formula change would be the development of a special access formula that provides for multiple retention ratios (varying, for example, by study area size) instead of a single retention ratio. The revenue requirement to be recovered by the formula would not change, but the distribution of the settlement across the population of average schedule carriers could change.

period. Path A LECs with average schedule study areas could also elect to convert to cost at any time during the transition period on a per-study area basis, consistent with current rules, as long as they have not moved to incentive regulation.

As noted above, at the end of the five-year transition period, each study area of a Path A LEC in the pool not already under incentive regulation as defined in this plan would become subject to such regulation.

2. Path B LECs

Path B LECs will participate in the single NECA pool created under the plan. These LECs will retain their current ability to exit that pool, as well as their current ability to elect price cap regulation. While Path B LECs will have the ability to elect Path A regulation at any time during the five-year transition period, these LECs will have to seek a waiver of the Commission's rules to elect such regulation after the transition period ends.

III. POOLING OPTION ELEMENTS

A. Access Elements

In the single NECA pool that will exist after plan approval, the current access rate structure and means of tariff administration will remain basically intact for both Path A and Path B LECs.[5] Per-minute access charges will be reduced as SLCs increase, consistent with the CALLS order.[6]

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5 This plan does not change NECA's current ability to band pool rates.

6 *See Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Low-Volume Long Distance Users, Federal-State Joint Board on Universal Service,* CC Docket No. 96-262 *et al.*, Sixth Report and Order in CC Docket Nos. 96-262 and 94-1, Report and Order in CC Docket No. 99-249, Eleventh Report and Order in CC Docket No. 96-45, FCC 00-193 (rel. May 31, 2000) (the "CALLS order").

1. Subscriber Line Charge

The SLCs of all Path A and Path B LECs will increase by tracking the SLC caps for carriers subject to the CALLS order (the "CALLS carriers"). Consistent with section 254(g) of the Communications Act (added by the Telecommunications Act of 1996), this assumes that those caps remain reasonably comparable to the SLCs that the CALLS carriers actually charge. Assuming such comparability, the SLC for residential and single business lines would change to $5.00 per month on July 1, 2001, and would change consistent with the SLC caps for CALLS carriers thereafter. There would be no separate SLC for non-primary residence lines. SLCs for multi-line business lines would transition over two years – to July 1, 2003– from the current rate of $6.00 per line to $9.20 per line.[7]

The increased SLCs will recover a larger portion of the non-traffic-sensitive ("NTS") costs. For Path A LECs, remaining NTS costs will be recovered first through the existing explicit universal service support mechanism and the carrier common line ("CCL") charge. If necessary, any remaining NTS costs would be recovered through a new explicit universal service support element known as Rate Averaging Support ("RAS"). For Path B LECs, to which the RAS does not apply, any portion of NTS costs not recovered in SLCs and existing explicit universal service support mechanisms would continue to be recovered through CCL charges.

Beginning on July 1, 2001, non-price cap LECs may geographically de-average SLCs into up to three geographic zones per wire center, so long as no multi-line business SLC is set lower than the lowest residential SLC. Such LECs must file their SLCs for each zone, together

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[7] A non-price cap LEC may assess SLCs for Centrex lines based on a per-line charge that is 1/9 of the multi-line business SLC. If a customer has fewer than nine Centrex lines, it pays one multi-line business SLC. This is similar to the treatment of Centrex in assessing presubscribed interexchange carrier charges. *See* section 69.513(g)(1) of the Rules, 47 C.F.R. § 69.513(g)(1).

with a geographic description and map of each such zone, with the Commission. If such LECs participate in the pool, the Association will impute revenues from SLCs as if they had been set at the maximum amount.

2. Composite Access Rate

The plan preserves the existing per-minute switched access rate structure, including the local switching and transport elements, the transport interconnection charge, and the CCL charge. However, for Path A LECs, the plan creates a composite rate target known as the Composite Access Rate ("CAR") which translates these rates into an aggregate per-minute rate. The CAR is not a specific rate element, but represents the target weighted per minute aggregate of Path A LECs' switched access rates. Under the plan, NECA will adjust the CAR to be 1.6 cents per minute on average two years after the beginning of the transition period for Path A LECs' study areas that participate in the pool. At the 1.6 cents per minute level, the CAR reflects a percentage reduction in per minute access charges comparable to that of the CALLS order. The CAR acts as a constraint on the aggregate levels of per-minute switched access rates for Path A pool participants.

3. Special Access Services

NECA will tariff special access services for Path A and Path B study areas participating in the pool. These LECs could also elect to tariff their special access services outside the NECA pool. Current flexibility for individual rates, such as term and volume discounts, would continue. NECA will have the flexibility to develop other price structures within the pool that would align study area prices and costs more closely.

4. New Access Services

To the extent that new services are subject to regulation, they would be introduced at prevailing market rates and administered by NECA for those study areas in the pool.

B. Pool Settlement Process And Incentive Regulation

1. Settlements During The Transition Period

Under the plan, LEC study areas in the pool will receive interstate access settlements in one of three ways: through the use of average schedules, on a cost basis, or through incentive regulation based on a fixed RPL (revenue per line) for switched access elements.[8] Regardless of how a study area settles with the NECA pool, the pool's authorized rate of return during the transition period will remain at 11.25%, and separations factors will be frozen consistent with the Joint Board's Recommended Decision in CC Docket No. 80-286.[9]

During the transition period, the pool settlements for study areas under incentive regulation will be based on the study area's RPL requirement, but adjusted for the pool's realized rate of return. This means that a Path A LEC subject to incentive regulation during the transition period could realize settlements paid on an RPL basis slightly above or below its individual RPL. All pool participants will share in the risks, as well as the earnings, of the pool during the transition period. NECA will retain the discretion to create separate pools for Path A and Path B LECs if, for example, a substantial number of Path B LECs remain subject to rate-of-return regulation after the transition period. However, as described in subsection 2 below, after the

8 The pool settlement process for special access is described below.

9 *Jurisdictional Separations Reform and Referral to the Joint Board*, CC Docket No. 80-286, Recommended Decision, FCC 00J-2 (Jt. Bd. rel. July 21, 2000).

transition period, pool settlements for study areas subject to incentive regulation will not be tied to the pool's earnings.

The RPL for study areas of Path A LECs subject to incentive regulation will be initialized based on the most recent cost or average schedule revenue requirement data prior to conversion to incentive regulation and adjusted for inflation based on the GDP-PI.[10] Annually thereafter, the RPL will be adjusted for inflation using the GDP-PI. NECA will pay settlements to participating LECs on a monthly basis. Settlements for Path A study areas subject to incentive regulation will be calculated as the product of participating study areas' actual average monthly access line count and their RPL.

NECA will determine special access settlements for all Path A pool participants subject to incentive regulation using retention ratios for the base year that a participant elected such regulation.[11] A retention ratio equal to the base year's retention ratio (adjusted for rate changes) would apply. During the transition period, pool settlements related to new access services will be based on existing procedures for study areas not yet subject to incentive regulation, while settlements for study areas subject to incentive regulation will be based on RPL or retention ratios.

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[10] Path A LECs will have the option to adjust the RPL value to reflect updated cost study or settlement data for a study area up to the point when the study area converted to the incentive plan. For example, assuming that the plan is introduced on July 1, 2001, and a Path A LEC elects incentive regulation at that time for a study area. The study area's RPL will be based on a 1999 cost study or average schedule settlement data, adjusted for inflation. At the option of the Path A LEC, on July 1, 2002, the RPL may be adjusted to include updated 2000 cost study or settlement data and on July 1, 2003, the RPL may be adjusted to reflect a half-year of updated 2001 cost study or settlement data. In all subsequent years, the RPL only would be adjusted annually to reflect inflation, based on the GDP-PI. If a Path A LEC does not choose this option, its RPL in the foregoing example would be based on the 1999 cost study or average schedule settlement data adjusted to reflect inflation.

[11] A retention ratio is a factor by which a pool participant keeps a percentage of the revenue that it bills. Currently, average schedule companies settle with the NECA pools based on special access retention ratios.

2. Settlements After The Transition Period

After the five-year transition period ends, all Path A study areas in the pool will be subject to a settlement mechanism based on incentive regulation. Settlements will be calculated as the product of actual line counts and the RPL. Path A special access settlements will be based on the applicable retention ratio, multiplied by billed revenues. Path A study areas under incentive regulation will receive settlements based on their RPL and special access retention ratio. NECA will make any adjustments needed to bring the available pool revenues and settlement claims into balance for Path A LECs once actual data are available. This adjustment amount will be included in the RAS on a monthly basis to reflect the lag in the reporting of actual access lines and revenues.

3. Low End Adjustment

Path A LECs subject to incentive regulation, both in and out of the pool, may apply for a low end adjustment if their interstate access rate of return drops below a predetermined threshold. The plan distinguishes between Path A LECs with five or fewer study areas subject to incentive regulation, which are subject to high levels of risk, and Path A LECs with more than five study areas subject to incentive regulation, which, because of the diversity of their study areas, are subject to less risk.

a. Five or Fewer Study Areas Subject To Incentive Regulation Within the Pool: Path A LECs with five or fewer study areas under incentive regulation within the pool may apply for a low end adjustment at the end of a tariff period if their study area interstate access rate of return for that period drops more than 50 basis points below the authorized level of 11.25% – that is, to less than 10.75%. These participants must submit a cost study to NECA to demonstrate that one or more of their study areas earned less than 10.75% for a given year. Upon such demonstration, these Path A LECs would be entitled to a payment in twelve equal installments over the following year to bring the prior year's earnings of the study area or study areas up to 10.75%. The accounting for these payments will provide that such payments will not increase the LEC's earnings for the period in which they are received. These payments generally would terminate at the end of the twelve-month period following the year in which the study area undereamed. Any claim for an adjustment in a subsequent year would have to be supported by a new cost study. NECA would increase the RAS to allow the affected study areas to earn a rate of return of 10.75% during the twelve-month period for which the adjustment is sought.

b. More than Five Study Areas Subject To Incentive Regulation Within The Pool: Path A LECs with more than five study areas that are in the pool and subject to incentive regulation_can only qualify for a low-end adjustment if they demonstrate in a cost study filed with NECA that their study area interstate access rate of return for a given year drops more than 100 basis points below the authorized level – that is, to less than 10.25%. These participants must perform a cost study that they submit to NECA to demonstrate that one or more of their study areas earned less than 10.25% for a given year. Upon such demonstration, these Path A LECs would be entitled to a payment in twelve equal installments over the following year to bring their prior year's earnings up to 10.25%. The accounting for these payments will provide that such payments will not increase the LEC's earnings for the period in which they are received. These payments generally would terminate at the end of the twelve-month period following the year in which the study area undereamed. Any claim for an adjustment in a subsequent year would have to be supported by a new cost study. NECA would increase the RAS to allow the affected study area or areas to earn a rate of return of 10.25% during the twelve-month period for which the adjustment is sought.

C. Adjustments for New Regulatory Requirements

When the Commission adds or enforces new requirements for Path A LECs with study areas in the pool that are subject to incentive regulation, the RPL will be adjusted in order to permit recovery of the costs of complying with such government requirements, including those associated with number portability and the Communications Assistance for Law Enforcement Act, and others similar to the exogenous costs under the price cap regime.

D. Acquisitions and Mergers

Exchanges acquired by Path A and Path B pool participants may enter the pool. If a Path A LEC in the pool and under incentive regulation acquires or merges with an exchange or study area, for the first eighteen months after the date of the transaction, the RPL for the acquired lines will be set at the average RPL of all Path A study areas in the pool under incentive regulation. The acquiring LEC must perform a cost study of the acquired lines for a consecutive twelve-month period within the first eighteen months after acquisition. The RPL for the acquired lines will be calculated according to the cost study.

If the acquired lines are included in an existing study area of the acquiring LEC, the RPL for that study area will be the weighted average of the RPLs of the acquiring study area and the acquired lines. If the acquired lines will be in a separate study area, the RPL for that study area is calculated separately from the RPLs of the acquiring LEC's existing study areas. The plan also modifies the Commission's existing study area freeze and its rules regarding the application of price cap regulation in mergers and acquisitions in order to simplify such transactions while still providing full notice to the Commission about them.[12]

[12] *See, e.g.*, Exhibit 3 at 3-3, 3-8.

IV. LECs THAT DO NOT PARTICIPATE IN THE POOL

Path A and Path B LECs may elect to file interstate access rates on a per-study area basis outside the NECA tariffing and pooling process. Once a Path A LEC study area exits the NECA pool, it cannot return, without obtaining a waiver of the Commission's rules.[13] Path B LECs may exit the pool pursuant to existing rules for doing so.

Non-pooling Path B LECs, and Path A LECs that elect the non-pooling option for one or more of their study areas will file and administer their own interstate access tariffs for such study areas. Rate elements will be the same as those in the current access charge rules. There will be no RAS for Path A or Path B study areas outside the pool.

As in the case of study areas in the pool, SLCs for non-pooling study areas must follow the caps in place for CALLS carriers. There will be no non-primary line SLC. Non-pooling LECs may de-average SLCs so long as no multi-line business SLC is set lower than the lowest residential SLC. Path A LECs will establish the rates for all other access elements for their non-pooling study areas using the current RPL. Such rates may include universal service revenues lost by exiting the pool. Once the initial rates are established, they can be de-averaged so long as the de-averaging does not increase the study area RPL.

For their non-pooling study areas, Path A LECs will establish special access rates on a flexible market basis. Deaveraging, term and volume discounts and contract pricing will be permitted. Such LECs may introduce new interstate access services at market rates, subject to non-dominant carrier regulation for such services.[14]

The RAS mechanism available for Path A LECs' pooling study areas will not be

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[13] As noted above, lines outside the pool that are acquired by pool participants will be permitted to reenter the pool.

available to those Path A study areas outside the pool.

The low-end adjustment will be available to non-pooling Path A LECs in a manner similar to Path A LECs in the pool.

a. Five or Fewer Study Areas Subject To Incentive Regulation Outside The Pool: A Path A LEC with five or fewer study areas that do not participate in the pool and are subject to incentive regulation may apply at the end of a tariff period to the Commission for a low end adjustment to its rates if the interstate access rate of return for the prior year for its interstate tariff filing entity is below the authorized level of 11.25% by more than 50 basis points (*i.e.*, the return is less than 10.75%). Such application must include a cost study demonstrating that the study areas collectively earned less than 10.25% for a given year. Upon approval of such application, the tariff filing entity will adjust its rates prospectively for twelve months to permit its interstate tariff filing entity to realize an interstate return of 10.25%. The accounting for this adjustment will provide that it will not increase the LEC's earnings for the period in which they are received. Except in special circumstances, this adjustment would terminate at the end of the twelve-month period following the year in which the tariff filing entity underearned. Any claim for an adjustment in a subsequent year would have to be supported by a new cost study.

b. More Than Five Study Areas Subject To Incentive Regulation Outside The Pool: A Path A LEC with more than five study areas that are outside the pool and subject to incentive regulation may apply to the Commission for a low end adjustment to its rates at the end of a tariff period if the interstate access rate of return for the prior year for its tariff filing entity is below the authorized level of 11.25% by more than 100 basis points (*i.e.*, the return is less than 10.25%). Such application must include a cost study demonstrating that the study areas

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[14] The Commission's rules for non-dominant carriers would apply. *See* 47 C.F.R. §§ 61.18-

collectively earned less than 10.25% for a given year. Upon approval of such application, the tariff filing entity will adjust its rates prospectively for twelve months to bring its prior year's earnings up to 10.25%. The accounting for this adjustment will provide that it will not increase the LEC's earnings for the period in which they are received. Except in special circumstances, this adjustment would terminate at the end of the twelve-month period following the year in which the tariff filing entity underearned. Any claim for an adjustment in a subsequent year would have to be supported by a new cost study.

V. UNIVERSAL SERVICE SUPPORT

The plan simplifies universal service support systems while reducing implicit universal service support, consistent with section 254 of the Communication Act. The plan broadens the definition of Lifeline support to be consistent with the CALLS order. Thus, Lifeline support will increase for low-income consumers to offset the increase to the residential SLCs contained in this plan. This will be the tariffed primary residential SLC plus $3.50.

For all Path A and Path B LECs, the plan removes the current "interim" cap on high cost loop support, as well as the corporate operations expense limitation.[15] Eliminating these caps will provide LECs with greater incentives to make the investments required to deploy in high cost areas advanced services that are comparable to those available in lower-cost areas.

As noted above, for Path A study areas participating in the pool, the plan introduces a new explicit, portable universal service support mechanism, known as rate averaging support

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61.25.

[15] The current cap on high cost loop support provides that if total support, based on each carrier's actual costs, is above the total allowed cap amount, each recipient of high cost loop support will receive a reduced amount of support to keep the total fund at a capped amount. *See* 47 C.F.R. § 36.601.

("RAS"). The RAS will be collected on the same basis as existing forms of explicit support. Unlike SLCs and the CAR, which will be set by Commission rule, NECA will calculate the RAS as the difference between the total Path A pool revenue requirement and the Path A revenues derived from the SLC, the switched access elements in the CAR, Long Term Support ("LTS"), and local switching support ("LSS"). Like LTS, the RAS lowers access charges.[16]

Under the plan, a Path A study area during the transition period or a Path B study area in the pool that remains subject to cost or average schedule regulation will continue to receive universal service support as it does today, adjusted for removal of the cap and disaggregation of support as discussed below. When a Path A study area in the pool moves to incentive regulation, its universal service support payments other than the RAS will be calculated on a fixed per-line basis, adjusted for inflation (similarly to its RPL). When a Path A LEC's study area begins incentive regulation, NECA will calculate that study area's per-line support based on the prior year's support and line count for that study area. The per-line support amount will be adjusted, both for the initial amount and annually thereafter, to reflect inflation, based on the GDP-PI estimate produced annually by the U.S. Department of Commerce.[17]

The plan permits additional evolutionary adjustments to universal service under Path A. The Commission's rules define the services to be supported from universal service funds. These services now include voice grade access to the public switched network and access to emergency,

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16 RAS would also recover a portion of the special access revenue requirement to avoid rate increases for Path A study areas serving high cost regions. This portion of the plan is designed to preclude rate shock that could result from study areas increasing special access rates. The special access component of the RAS will also help to ensure that small rate-of-return LECs have the incentive to deploy advanced services in their territories.

17 The plan also adjusts universal service support to reflect the expansion of Lifeline described above.

interexchange, and operator services.[18] As the definition of universal service evolves, the RPL will be adjusted in order to ensure that the universal service funding remains sufficient. This could be necessary, for example, if Congress or the Commission requires increased deployment of broadband services in rural, high cost areas.

The plan requires adjustments to reflect the costs of complying with governmental requirements that force LECs subject to the plan to incur costs, such as those associated with number portability and the Communications Assistance for Law Enforcement Act, and others similar to the exogenous costs under the price cap regime. An adjustment to the RPL settlement amount (or customer rates for non-pooling study areas) will take place to provide for recovery of such mandated cost requirements. To the extent that this must be estimated, it may be necessary to adjust per-line universal service support to cover any residual amounts not captured by this process.

A Path A study area's annual support (excluding the RAS) would be the product of its adjusted per-line support and its switched access line count for that year. No other cap would apply to this support. As a residual support mechanism the RAS will not be included in these calculations.[19]

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[18] *See* 47 C.F.R. § 54.101(a). The other services currently supported are Local Usage, DTMF signaling, single-party service, access to directory assistance, and toll limitation for low-income consumers.

[19] As with the RPL, this per-line universal service support may be adjusted on a prospective basis to reflect updated data to the point when the study area converted to the incentive plan. In all subsequent years, the universal service support amount per line will be adjusted for inflation as described above.

The frozen per-line universal service support includes the following components:

High Cost Loop Support: LECs whose study areas receive high cost loop support in the year prior to the effective date of the plan will continue to receive this support. Study areas that remain on cost or average schedules during the transition period will continue to receive support on the same basis as before the plan, except that support will be recalculated with the cap removed.

Study areas that move to incentive regulation and settle on an RPL basis will have their support calculated on a per-line basis. Per-line support will be frozen after being recalculated to remove the indexed cap, and otherwise adjusted as described above.[20]

Local Switching Support: Eligible study areas of 50,000 or fewer access lines will qualify for local switching support under the Commission's rules based on support for the year prior to the study area moving off rate-of-return settlements.[21] This support will also be converted to a per-line basis as described above.

Alternatively, for a given pooling study area, a Path A LEC could choose to set its universal service amount based on the data available at the time it converted to the incentive plan with no further updates, and adjusted only for inflation.

[20] *See Federal-State Joint Board on Universal Service*, 12 FCC Rcd 8776, 8939-8940 (1997); 47 CFR § 36.622.

[21] *See* 47 C.F.R. § 54.301.

Long Term Support: Pooling study areas will qualify for LTS from the base year of 1997, adjusted by changes in the actual nationwide average unseparated loop cost and inflation.[22] This support will be converted to a per-line basis as described above.

The sum of these three components for each pooling study area, on a per-line basis, will be established for the base year preceding the move from rate-of-return based settlements to incentive settlements.

This support will be portable, because it would pass to a competing eligible telecommunications carrier if or when the competing carrier captures a line, consistent with the time reporting requirements of the Universal Service Administrative Company ("USAC"). The residual support provided by the RAS also is portable.

If a Path A LEC that participates in the pool and is under incentive regulation acquires or merges with an exchange or study area, for the first eighteen months after the date of the transaction, the universal service support for the acquired lines will be set at the average support of all Path A study areas in the pool under incentive regulation. The acquiring LEC must perform a cost study of the acquired lines for a consecutive twelve-month period within the first eighteen months after acquisition, and the support for the acquired lines will be calculated according to the cost study. If the acquired lines are included in an existing study area of the acquiring LEC, the LECs would receive an automatic waiver from the price cap rules so that individual exchanges from price cap companies may convert to incentive regulation.[23]

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[22] *See id.* § 54.303. Starting in 2000, LTS is to increase by applying the GDP-CPI for the prior year.

[23] Universal service support for each study area that moves to incentive regulation will be established based on their initialized RPL for the base year adjusted for inflation, as described above.

The plan also permits Path A and Path B LECs to disaggregate each study area's universal service support per line into no more than three geographic zones per wire center. These zones could include the area within a community or town limits as one cost region, the area surrounding the community to a cost-based transitional point,[24] and then a third cost region for remote areas of the wire center where cost is highest and customer density the lowest. Such LECs will determine the per-line support in each zone for each wire center based on its cost characteristics. Those per-line amounts then will be adjusted for inflation and other factors as described above. Path A and Path B LECs will file their zones and the associated per-line support with the Commission, USAC, and the relevant state regulatory agency.[25]

VI. TOLL RATE AVERAGING

The plan requires IXCs to pass through to long distance customers the savings that IXCs realize from lower access rates charged by LECs subject to the plan. The plan proposes to continue the elimination of IXCs' minimum monthly charges for long distance service customers in the service areas of such LECs. Similarly, the plan requires IXCs to offer the same optional calling plans to rural and urban customers alike.

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[24] An example would be the location where facilities transition from backbone feeder routes configuration to a distributional configuration.

[25] If the characteristics of a particular wire center justify more than three zones, Path A LECs and Path B LECs may seek waivers from the Commission and the state regulator, as needed, to disaggregate support into additional zones.